

**TIMBERLAKES WATER  
SPECIAL SERVICE DISTRICT  
A COMPONENT UNIT OF WASATCH COUNTY  
Financial Statements  
December 31, 2005**

**TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**

**A COMPONENT UNIT OF WASATCH COUNTY**

**Financial Statements**

December 31, 2005

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## INDEPENDENT AUDITORS' REPORT

Honorable Administrative Board Members  
Timberlakes Water Special Service District  
Heber City, Utah

We have audited the financial statements of Timberlakes Water Special Service District, a component unit of Wasatch County, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of Timberlakes Water Special Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Timberlakes Water Special Service District as of December 31, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2006, on our consideration of Timberlakes Water Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the District's financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the Schedule of Insurance, and the graphs are presented for purposes of additional analysis and are not a required part of the financial statements of Timberlakes Water Special Service District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Hawkins Cloward & Simister, LC*

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

January 24, 2006

# **Timber Lakes Water SPECIAL SERVICE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Timber Lakes Water Special Service District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the year ending December 31, 2005. Please read it in conjunction with the financial statements and additional information that is furnished in the independent auditor's report.

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## **FINANCIAL HIGHLIGHTS**

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- The District's operating expenses increased from 2004 to 2005 by \$86,221.
- In 2005, the District's Revenues increased over 2004 by \$6,289 due to an increase in the company's customer base.
- The District's total net assets increased from \$1,983,641 to 2,044,923 due to improvements made to the water system from bond proceeds received from a federal SRF Loan.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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This annual report includes the management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that detail information in some of the financial statement with comparison to the previous year.

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## **REQUIRED FINANCIAL STATEMENTS**

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The financial statements report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the District's financial activities. The Statement of Net Assets includes all assets and liabilities and provides information about the nature and amounts of investments and resources (assets) and the obligations to the District's creditors (liabilities).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through fees and other charges, as well as establishing a basis for determining profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, financial activities and provides answers to such questions as "where did cash come from?", "what was cash used for?", "and what changes were there in cash balances during the year?"

## **Explanation of Statement of Revenues, Expenses and Change in Net Assets**

As noted in the Statement of Revenues, Expenses and changes in Net Assets, the District's water fees income increased by \$4,019 to \$710,602 from 2004 to 2005. This increase is due to additional resources gained from an additional eleven customers that hooked up to the water system in 2005. Generally speaking, revenues from water usage remained steady from 2004 to 2005. Also, clerical changes made in 2005 allow the District to keep more accurate records of income received from water usage, Capital Fees and Maintenance Fees.

As noted in the row marked Hook-up fees, the dollar amount increased by \$9,770 to \$36,770 from 2004 to 2005. This difference represents approximately two more hook ups in 2005 than there were in 2004. By vote of the Board, the hook up fee, which is a capital fee, was decreased from \$4,500 in 2004 to \$3,500 in 2005. This change was made in an effort to keep the impact fees equitable throughout the system and was made as a result of an analysis done by Horrocks Engineering. Meter connection fees income went down from \$19,500 in 2004 to \$12,000 in 2005. Basically, five less people paid to have meters connected in 2005 than in 2004. Some discrepancy can be accounted for because some of the customers who hooked a meter to the water system in 2005 paid for their connection in previous years.

As can be seen under the Operating Expenses Column, next to the line marked Water Service, expenses went up by \$86,221 to \$597,552 in 2005. General and Administrative Costs decreased by \$12,439 in 2005 to \$69,059. This change is mainly because of a decrease in benefits paid to employees. In 2004 the District paid benefits to one "full-time" employee in the office. In 2005 the District hired two part-time employees to run the office. By splitting the hours worked in the office between two employees, the District was able to avoid paying benefits, thus reducing general and administrative expenses. Depreciation expense increased, as expected, due to further depreciable capital improvements on the water system.

Interest income increased by \$8,348 in 2004 to \$13,109 in 2005 mainly because of interest earned from unexpended proceeds from the 2004 bond. These amounts are more in 2005 because of a full year of interest on the 2004 series bond as compared to a partial year of interest on the bond in 2004. Interest expense increased by \$5,589 in 2005 because of additional money being drawn on the bond.

Net Assets at the end of the year increased by \$61,282 to \$2,044,923 in 2005 as compared to 2004. This Change is due to the excess of revenues over expenditures.

## **Statement of Net Assets Explanation**

Cash and cash equivalents declined this year because the District expended funds to replace a water line on Lake Pines Drive and buy flumes to measure the over flow of all of the District's Springs. The water line was replaced ahead of schedule to keep ahead of the TLPOA plans to asphalt Lake Pines Drive. The flumes needed to be put in to preserve the District's water right by making sure that surrounding spring developments are not influencing the flow of Timber Lake's springs. Accounts receivable increased by \$2,117 in 2005. These monies represent money owed to the District by customers. In the management's opinion, this increase is a normal fluctuation.

Restricted cash is cash held in escrow used to satisfy bond debt. Restricted Cash increased by \$40,445 in 2005 because of further expenditures from the \$1,000,000 bond that was issued to the District in 2004. Restricted cash increased by \$40,445 because we make monthly deposits into a reserve account until it reaches a certain balance as per loan covenants. The increase in restricted cash is further explained because of retainage held for Sorenson Construction and the 2004 Federal SRF Loan, as well as unspent meter lease proceeds. The meter lease proceeds should be fully expended in 2006. Management anticipated that the entire bond would be expended in 2005. However, there are still some funds that will be expended in 2006.

The value of the Timber Lakes Water System increased by \$358,343 in 2005. This increase is down from 2004 because the amount of improvements in 2005 was fewer than the amount improvements made in

2004. Also, much of the work on the system was expensed as repairs in maintenance rather than capitalized. Overall, assets have increased as cash is used for capital improvements.

### **Current Liabilities**

Current Liabilities only increased by \$543 in 2005. This is not noteworthy; however, it is important to note that the District is still expending the 2004 Bond and is liable for \$19,586 in retainage payable to Sorenson Construction. Current portion debt is principal that the District pays on borrowed monies that is due within one year. This amount increased in 2005 by \$7,170. Further, pre-paid water fees, which are fees paid to the district before any service is rendered, are up by \$ 7,068 in 2005. These fees include regular monthly fees, impact fees and meter connection fees. In short, there was not a significant change in current liabilities. However, pre-paid water fees, accrued interest payable and current portion debt went up, while accounts payable, retainage payable and salaries and wages payable went down.

### **Non Current Liabilities**

As has already been mentioned, the District borrowed money in the form of a \$1,000,000 bond in 2004. This new debt is represented by the increase of \$184,300, net of principal payments made during the year, in the bonds payable. The District drew additional money from the 2004 bond in 2005. Non current liabilities are also affected by principal payments made on existing debt. They are liabilities that are not due within one year. The increase in non-current liabilities is offset by principal payments made on existing debt. Only part of the 2004 bond money was expended by the end of 2004. As of December 31, 2005, \$778,000 of the 2004 bond was expended. The District plans to make use of the remaining \$222,000 in the 2004 bond in 2006 by replacing 4,500 feet Ridge Pine Drive with new water line.

Notes Payable decreased by \$5,142 in 2005 because the District is paying for a work truck purchased in 2004. This vehicle will be paid off in 2009.

The capital lease represents money that was borrowed in 2003 to purchase water meters. As evidenced by the \$27,389 decrease in the Capital Lease, the amount owing for water meters is quickly diminishing. At the current rate, the meters should be paid for in July of 2006.

Overall, Total Liabilities increased from \$2,646,831 to \$2,791,974 in 2005. This difference is offset by an increase of \$206,425 in total assets. This increase in value is due to system improvements. In short, the District has assumed more debt, but at the same time the value of the water system has increased.

The amounts invested in Capital Assets, net related debt increased by \$104,912 in 2005. This figure increased because of improvements made to the water system, but is offset because of debt incurred to finance system improvements.

The amount Restricted for Debt Service increased by \$40,445 because of increased debt due to capital investments in the water system and the need to service that debt.

Unrestricted Cash decreased by \$127,044 decreased because the District spent more of its own money this year.

Total Net Assets is the difference between assets and liabilities. In other words, if the District sold all of its assets and paid off its liabilities this is the amount left. Total net assets increased by \$61,282 to \$2,044,923 in 2005.

Cash Flows: Net Cash provided by operating activities decreased by \$165,906 in 2005. Operations generated less cash because the District expensed more of the system repairs as opposed to capitalizing the costs. Payments to employees are up by \$44,283 because of extra hours worked for capital projects and yearly pay increases. Also, payments to suppliers increased by \$67,860. These payments increased



because of supplies bought to improve sections of water line on Lake Pines Drive, as well as purchasing flumes to measure over flow of all of the Timber Lakes Springs.

The over all Financial Position of the District is stable. However, the income provided by the District's customers will not likely have a drastic increase in the years to come. This means that the Timber Lakes Water Board and its management will need to be cautious about major future expenses for Capital Improvements. This presents a dilemma, which will probably only be resolved by a rate increase. To put the problem in perspective, approximately 10 miles out of 35 miles of the water system has been replaced. However, there is still approximately 25 miles of water line that need to be replaced. These water lines are in need of replacement because many are under sized and all have insufficient ground cover to prevent freezing. If a major section of water line freezes and breaks again the District will be faced with tough decisions on how to finance repairs.

## **FINANCIAL STATEMENTS**

The financial statements as required by generally accepted accounting principles in the United States of America include:

Statement of Net Assets

Statement of Revenues, Expenses and Changes in Net Assets

Statement of Cash Flows

**TIMBERLAKES WATER  
SPECIAL SERVICE DISTRICT**  
A COMPONENT UNIT OF WASATCH COUNTY

**Statement of Net Assets**  
December 31, 2005  
With Comparative Totals for December 31, 2004

**ASSETS**

	2005	2004
<b>Current Assets</b>		
Cash and cash equivalents (Notes 1 and 2)	\$ 154,831	\$ 281,875
Accounts receivable (Note 1)	111,093	108,976
Total current assets	<u>265,925</u>	<u>390,851</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents (Notes 1 and 2)	461,314	420,869
Capital assets (Notes 1 and 6)		
Equipment	100,091	104,148
Water system	2,643,196	2,284,853
Bond fees	56,000	56,000
Water shares	1,600,000	1,600,000
Accumulated depreciation	<u>(289,629)</u>	<u>(226,249)</u>
Total noncurrent assets	<u>4,570,972</u>	<u>4,239,621</u>
Total assets	<u><u>\$ 4,836,897</u></u>	<u><u>\$ 4,630,472</u></u>

**LIABILITIES**

<b>Current Liabilities</b>		
Accounts payable	\$ 4,549	\$ 5,182
Retainage payable	19,586	23,207
Salaries and wages payable	11,569	22,012
Prepaid water fees	16,739	9,671
Accrued interest payable	48,584	47,581
Current portion debt (Notes 4 and 5)	<u>166,602</u>	<u>159,432</u>
Total current liabilities	<u>267,628</u>	<u>267,085</u>
<b>Noncurrent Liabilities</b>		
Bonds payable (Note 4)	2,654,200	2,469,900
Note payable (Note 4)	22,753	27,895
Capital lease (Note 5)	13,994	41,383
Less: current portion debt	<u>(166,602)</u>	<u>(159,432)</u>
Total noncurrent liabilities	<u>2,524,346</u>	<u>2,379,746</u>
Total liabilities	<u><u>\$ 2,791,974</u></u>	<u><u>\$ 2,646,831</u></u>

**NET ASSETS (NOTE 8)**

Invested in capital assets, net of related debt	\$ 1,656,665	\$ 1,551,753
Restricted for debt service	225,031	175,436
Unrestricted	<u>163,227</u>	<u>256,452</u>
Total net assets	<u><u>\$ 2,044,923</u></u>	<u><u>\$ 1,983,641</u></u>

**TIMBERLAKES WATER  
SPECIAL SERVICE DISTRICT**  
A COMPONENT UNIT OF WASATCH COUNTY  
**Statement of Revenues, Expenses and Changes in Net Assets**  
December 31, 2005  
With Comparative Totals for December 31, 2004

	2005	2004
<b>Operating Revenues</b>		
Water fees	\$ 710,602	\$ 706,583
Hookup fees	36,770	27,000
Meter fees	12,000	19,500
Total operating revenues	<u>759,372</u>	<u>753,083</u>
<b>Operating Expenses</b>		
Water service	461,057	372,162
General and administrative	69,059	81,498
Depreciation and amortization	67,437	57,671
Total operating expenses	<u>597,552</u>	<u>511,331</u>
Operating income	<u>161,820</u>	<u>241,752</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	13,109	4,761
Interest expense	<u>(113,646)</u>	<u>(108,057)</u>
Total nonoperating revenues (expenses)	<u>(100,538)</u>	<u>(103,296)</u>
Net income	61,282	138,456
 Net assets – beginning of year	 <u>1,983,641</u>	 <u>1,845,185</u>
Net assets – end of year	<u><u>\$ 2,044,923</u></u>	<u><u>\$ 1,983,641</u></u>

**TIMBERLAKES WATER  
SPECIAL SERVICE DISTRICT**  
A COMPONENT UNIT OF WASATCH COUNTY  
**Statement of Cash Flows**  
December 31, 2005  
With Comparative Totals for December 31, 2004

	2005	2004
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 764,322	\$ 818,085
Payments to suppliers	(354,151)	(286,291)
Payments to employees	(190,662)	(146,379)
Net cash provided by operating activities	<u>219,509</u>	<u>385,415</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal paid on loans	(173,231)	(134,348)
Interest paid on debt	(112,643)	(111,691)
Proceeds from issuance of debt	325,000	524,126
Acquisition of capital assets	(358,341)	(551,433)
Net cash used by capital and related financing activities	<u>(319,215)</u>	<u>(273,346)</u>
<b>Cash Flows from Investing Activities</b>		
Interest income	<u>13,109</u>	<u>4,761</u>
Net cash provided by investing activities	<u>13,109</u>	<u>4,761</u>
Net increase (decrease) in cash and cash equivalents	(86,597)	116,830
Balances – beginning of year	<u>702,744</u>	<u>585,914</u>
Balances – end of year	<u><u>\$ 616,146</u></u>	<u><u>\$ 702,744</u></u>
Cash and cash equivalents	\$ 154,831	\$ 281,875
Restricted cash and cash equivalents	<u>461,314</u>	<u>420,869</u>
	<u><u>\$ 616,146</u></u>	<u><u>\$ 585,914</u></u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 161,820	\$ 241,752
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	67,437	57,671
Changes in assets and liabilities		
Receivables (increase) decrease	(2,117)	64,812
Accrued liabilities increase (decrease)	(14,697)	20,990
Prepaid fees increase (decrease)	7,067	190
Net cash provided by operating activities	<u><u>\$ 219,509</u></u>	<u><u>\$ 385,415</u></u>

## **NOTES TO FINANCIAL STATEMENTS**

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

# **TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**

## **A COMPONENT UNIT OF WASATCH COUNTY**

### **Notes to Financial Statements**

December 31, 2005

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements and notes are representations of Timberlakes Water Special Service District's (the District) management, which is responsible for their integrity and objectivity. They have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and present the financial position, the changes in its financial position, and cash flows of the District as of December 31, 2005, and for the year then ended. This summary of significant accounting policies of the District is presented to assist in understanding the financial statements.

#### **Reporting Entity**

Timberlakes Water Special Service District was created by Wasatch County on February 13, 1995 to provide culinary water service within the District's boundaries. The District held organizational meetings during August 1995, and began operations in September 1995.

The District is a proprietary fund type of the governmental entity Wasatch County, which is operated similar to a private business enterprise. The intent of the governing body is that the costs of providing goods and services on a continuing basis to the general public within the District's boundaries be financed or recovered primarily through user charges for culinary water services.

#### **Component Unit**

Under the guidelines established by GASB 39, the District has been determined to be a component unit of Wasatch County for financial accounting purposes. Consequently, separate financial statements are required for the District.

#### **Basis of Accounting**

Proprietary funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of the District, both current and noncurrent, are included on the Statement of Net Assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Proprietary funds follow all GASB pronouncements. In addition all Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) opinions pronouncements issued on or before November 30, 1989 are followed unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

# TIMBERLAKES WATER SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

## Notes to Financial Statements

December 31, 2005

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the District are charges to customers for culinary water services provided by the District. Operating expenses for the District include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

#### Capital Assets

All property, plant and equipment are included in the financial statements at historical cost. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Both depreciation and amortization are computed using the straight-line method.

Estimated useful lives of the various classes of capital assets are as follows:

Automobiles	5 years
Computers, printers, software	3 years
Heavy equipment	6 years
Equipment	7 years
Water system and improvements	50 years
Bond fees	20 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period.

#### Accounts Receivable

The District doesn't write off any receivables. Wasatch County passed an ordinance allowing the District to place a lien on any property with an outstanding balance on the monthly water fees. The District will place a lien on the property if the account is ninety (90) days delinquent at September 1. The District will collect the fees at some point in time; therefore, an allowance for doubtful accounts is not recorded in the financial statements. The policy for determining when receivables are past due is based on most recent payments received.



# **TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**

## **A COMPONENT UNIT OF WASATCH COUNTY**

### **Notes to Financial Statements**

December 31, 2005

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Budgeting**

The District's governing board adopts a budget for each calendar year prior to the beginning of the year. The budget was amended during the year.

##### **Cash Equivalents**

The District defines cash and cash equivalents as all deposits in its checking and savings accounts, and all highly liquid debt instruments purchased with a maturity of three months or less.

##### **Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in the coverage from the prior year. Settled claims have not exceeded the commercial coverage in any of the three preceding years. The District also carries commercial workers' compensation insurance.

##### **Compensated Absences**

The District's compensation policy permits employees to accumulate unused vacation. Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment. Sick leave is forfeited at termination of employment and, therefore, is excluded from accrued compensated absences. The amount of accrued vacation was \$3,345 at December 31, 2005.

##### **Comparative data**

Comparative data for the prior year have been presented in the financial statements to provide an understanding of changes in the District's financial position and results of operations. Certain data have been reclassified to conform to the December 31, 2005 presentation.

# **TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**

## **A COMPONENT UNIT OF WASATCH COUNTY**

### **Notes to Financial Statements**

December 31, 2005

#### **NOTE 2 – DEPOSITS AND RESTRICTED DEPOSITS**

##### **Deposits**

The District's deposits and investing are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

##### **Custodial Credit Risk – Deposit**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner Financial Institutions as meeting requirements of the Act and adhering to the rules of the Utah Money Management Council.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. As of December 31, 2005, \$311,695 of the District's bank balance of \$659,591 is exposed to custodial credit risk as uninsured and uncollateralized. The carrying amount of the deposits at December 31, 2005 is \$616,146.

##### **Restricted Deposits**

The District issued Water Revenue Refunding and New Money Bonds during 1998. The District has established three trust accounts to receive and disburse funds related to the bond issue. The trust accounts consist of a bond fund, capital improvement fund, and a debt service reserve fund. At the time of issue, funds were placed in the capital improvement fund and the debt service reserve fund. The money in the capital improvement fund is to be used to make improvements to the water system. The debt service reserve fund will be used to meet the debt service reserve requirements. The District deposits \$16,859 monthly in the bond fund. The money in the bond fund will be used to retire the principal and pay the semiannual interest payments. The District had a balance of \$382,616 in the trust accounts at December 31, 2005.

The District entered into a capital lease agreement with Zions Bank for water meters in 2005. The lease money was deposited in to a separate checking account held at Zions bank. This money is specifically designated to purchase meters and cannot be used for any other expenses. The District had a remaining balance of \$12,322 in the account at December 31, 2005.

The District issued Water Revenue Bonds during 2004. The District has established four trust accounts to receive and disburse funds related to the bond issue. The trust accounts consist of a bond fund, capital improvement or 'project' fund, a debt service reserve fund, and a retainage fund. At the time of issue, funds were placed in the capital improvement fund. The money in the capital improvement fund

# TIMBERLAKES WATER SPECIAL SERVICE DISTRICT

## A COMPONENT UNIT OF WASATCH COUNTY

### Notes to Financial Statements

December 31, 2005

#### NOTE 2 – DEPOSITS AND RESTRICTED DEPOSITS (CONTINUED)

is to be used to make improvements to the water system. Whenever a payment is made from the capital projects fund, 5 percent of that draw is transferred to the retainage fund and paid to the contractor once the work has been inspected. The bond fund and debt service reserve fund will be used to meet the debt service reserve requirements. The District deposits \$4,226 monthly in the bond fund and \$995 monthly in the reserve fund. The money in these funds will be used to retire the principal and pay the semiannual interest payments. The District had a balance of \$66,376, in the trust accounts at December 31, 2005.

The District utilizes restricted resources to finance qualifying activities prior to utilizing unrestricted resources.

#### NOTE 3 – ECONOMIC DEPENDENCY

The District is economically dependent on the culinary water services it provides within its boundaries. They received ninety-nine (99) percent of their revenues from these services.

#### NOTE 4 – DEBT

The changes in long-term debt are as follows:

	Balance 12/31/2004	Additions	Reductions	Balance 12/31/2005	Due Within One Year
1998 Water Revenue Bond	\$ 1,974,900		(\$98,700)	\$ 1,876,200	\$104,100
Truck note payable	27,895		(5,142)	22,753	5,508
2005 Water Revenue Bond	495,000	\$325,000	(42,000)	778,000	43,000
Capital Lease	41,383		(27,389)	13,994	13,994
Totals	<u>\$ 2,539,178</u>	<u>\$ 325,000</u>	<u>(\$173,231)</u>	<u>\$ 2,690,947</u>	<u>\$ 166,602</u>

During 1998, Timberlakes Water Special Service District issued a Water Revenue Refunding and New Money Bond. The bond issue was \$2,400,000. The annual principal payments ranging from \$76,800 to \$177,100 are due beginning January 15, 2001 through the year 2019. The bonds accrue interest at rates from 5.05% to 5.45% per annum. The interest is payable semiannually on July 15 and January 15.

During 2004, the District purchased a 2005 Ford F-350 Super Duty truck. The District financed \$29,126 at 6.75% over 60 months. Monthly payments of \$575 are made beginning October 2004 through 2009.

# TIMBERLAKES WATER SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

## Notes to Financial Statements

December 31, 2005

### NOTE 4 – DEBT (CONTINUED)

During 2004, the District issued a Water Revenue Bond for an amount not to exceed \$1,000,000. The annual principal payments ranging from \$42,000 to \$59,000 are due beginning October 1, 2004 through the year 2025. The bonds accrue interest at 1.76% per annum. The interest is payable annually on October 1. The District has drawn down \$778,000 on the bonds at December 31, 2005.

The District's annual requirements to meet their debt obligations are as follows:

Year Ended	Principal	Interest	Total Obligation
2006	\$ 152,608	\$ 110,368	\$ 262,976
2007	159,600	103,921	263,521
2008	165,920	96,607	262,527
2009	171,925	89,076	261,001
2010	158,200	82,037	240,237
2011-2015	897,100	301,340	1,198,440
2016-2020	922,600	90,079	1,012,679
2021-2025	<u>49,000</u>	<u>1,102</u>	<u>50,102</u>
Total debt	2,676,953	874,529	3,551,482
Less current portion	<u>(152,608)</u>	<u>(110,368)</u>	<u>(262,976)</u>
Total long-term debt	<u>\$ 2,524,345</u>	<u>\$ 764,161</u>	<u>\$ 3,288,506</u>

### NOTE 5 – CAPITAL LEASES

During June of 2004, the District entered into a capital lease to purchase water metering units. The lease amount of \$80,800 is secured by the water metering units. The interest rate stated on the lease is 2.85% per annum. Semi-annual payments of \$14,194 are due beginning January 15, 2004 through July 15, 2006.

Year Ended	Principal	Interest	Total Obligation
2006	\$ 13,994	\$ 199	\$ 14,193

# TIMBERLAKES WATER SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

## Notes to Financial Statements

December 31, 2005

### NOTE 6 – CAPITAL ASSETS (CONTINUED)

The District received the existing water system from Veigh Cummings as a bargain purchase and gift for ten (10) dollars. The existing water system was fully depreciated during 1995.

Capital asset activity for the year ended December 31, 2005 is as follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Capital assets, not being depreciated				
Water shares	\$ 1,600,000			\$ 1,600,000
Total capital assets, not being depreciated	1,600,000	\$ -0-	\$ -0-	1,600,000
Capital assets, being depreciated				
Bond fees	56,000			56,000
Water system	2,284,853	358,343		2,643,196
Vehicles	62,466			62,466
Equipment	24,476		(4,057)	20,419
Office equipment	17,206			17,206
Total capital assets, being depreciated	2,445,001	358,343	(4,057)	2,799,287
Less accumulated depreciation				
Bond fees	17,500	2,800		20,300
Water system	161,633	49,280		210,913
Vehicles	13,004	12,234		25,238
Equipment	17,723	2,844	(4,057)	16,510
Office equipment	16,389	278		16,667
Total accumulated depreciation	226,249	67,436	(4,057)	289,628
Net depreciable assets	2,218,752	290,907	-0-	2,509,659
Capital assets, net	\$ 3,818,752	\$ 290,907	\$ -0-	\$ 4,109,659

### NOTE 7 – RETIREMENT PLANS

The District contributes to the Local Government Noncontributory Retirement System and the 401(k) Defined Contribution System for qualifying employees. These retirement systems are cost-sharing multiple-employer defined benefit pension plans and defined contribution plans, respectively, administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

# **TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**

**A COMPONENT UNIT OF WASATCH COUNTY**

## **Notes to Financial Statements**

December 31, 2005

### **NOTE 7 – RETIREMENT PLANS (CONTINUED)**

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code* Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

The District was required to contribute 11.09% of annual covered salary on behalf of participants in the Local Governmental Noncontributory Retirement System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Local Governmental Noncontributory Retirement System were \$17,194 for 2005, \$16,045 for 2004, and \$13,571 for 2003. The contributions were equal to the required contributions for each year.

The District also contributes 3.2% of participating employees' salaries to the 401(k) Plan Defined Contribution System. The District's contributions to the 401(k) plan were \$4,783 in 2005, \$4,961 in 2004, and \$4,747 in 2003. The employees' contributions to the plan were \$4,050 in 2005, \$4,350 in 2004, and \$3,125 in 2003. Employees are 100% vested in all contributions made to this plan.

# TIMBERLAKES WATER SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

## Notes to Financial Statements

December 31, 2005

### NOTE 8 – NET ASSETS

Net assets at December 31, 2005 consisted of the following:

Invested in capital assets, net of related debt	
Property, plant, and equipment, net	\$ 4,109,658
Less outstanding debt issued to construct capital assets	(2,452,993)
Total invested in capital assets, net of related debt	<u>1,656,665</u>
Restricted net assets	
Restricted for meter purchase	14,635
Less outstanding debt issued	(14,635)
	<u>-0-</u>
Restricted for debt service	448,992
Less outstanding debt issued	(223,961)
Restricted for debt service, net of related debt	<u>225,031</u>
Total restricted net assets	<u>225,031</u>
Unrestricted net assets	<u>163,227</u>
Total net assets	<u><u>\$ 2,044,923</u></u>

### NOTE 9 – COMMITMENTS

In May, 2004, the District issued \$1,000,000 bonds to make improvements to the existing water system. The estimated completion date of the improvements is November 2006. The District will draw down the remaining bond proceeds in 2006.

**ADDITIONAL AUDITORS' REPORTS  
AND SCHEDULES**



**TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**

**Schedule of Expenditures of Federal Awards**

For the year ended December 31, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Program Award Amount</u>	<u>Current Year Expenditures</u>
<b>Environmental Protection Agency</b>				
Drinking Water State Revolving Fund	66.468	FS-99878401-0	\$ 1,000,000	\$ 778,000
Total Expenditures				<u>\$ 778,000</u>

**TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**  
**Notes to the Schedule of Expenditures of Federal Awards**  
For the year ended December 31, 2005

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

Revenues are recognized in the accounting period that qualifying expenditures occur. Expenditures are recognized in the accounting period in which the liability is incurred.

**NOTE 2 - LOANS OUTSTANDING**

The federal expenditures reported as Drinking Water State Revolving Fund represents the loan balance outstanding at year end.

**NOTE 3 - NON-CASH ASSISTANCE**

The District did not receive any non-cash assistance for the year ended December 31, 2005.



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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Administrative Board Members  
Timberlakes Water Special Service District  
Heber City, Utah

We have audited the financial statements of Timberlakes Water Special Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated January 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Timberlakes Water Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Timberlakes Water Special Service District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1 and 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are a material weakness.

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Timberlakes Water Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Hawkins Cloward & Simister, LC*

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

January 24, 2006



# HAWKINS CLOWARD & SIMISTER

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Administrative Board Members  
Timberlakes Water Special Service District

### Compliance

We have audited the compliance of Timberlakes Water Special Service District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2005. Timberlakes Water Special Service District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Timberlakes Water Special Service District's management.

Our responsibility is to express an opinion on Timberlakes Water Special Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Timberlakes Water Special Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Timberlakes Water Special Service District's compliance with those requirements.

In our opinion, Timberlakes Water Special Service District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

### Internal Control Over Compliance

The management of Timberlakes Water Special Service District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Timberlakes Water Special Service District's internal control over compliance with requirements that

could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Hawkins Cloward & Simister, LC*

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

January 24, 2006

**TIMBERLAKES WATER  
SPECIAL SERVICE DISTRICT**

**A COMPONENT UNIT OF WASATCH COUNTY  
Schedule of Findings and Questioned Costs  
December 31, 2005**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Timberlakes Water Special Service District.
2. There were no reportable conditions relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance material to the financial statements disclosed during the audit.
4. There were no findings relative to the internal control over compliance with major federal award program.
5. The auditor's report on compliance for the major federal awards program for Timberlakes Water Special Service District expresses an unqualified opinion.
6. There were no findings relative to the major federal award program.
7. The program tested as a major program is:  
Capitalization Grants for Water State Revolving Fund, CFDA No. 66.468
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. This was the initial single audit. Therefore, the District wasn't a low risk auditee.

## **B. FINDINGS – FINANCIAL STATEMENT AUDIT**

### **2005-1 Finding: Segregation of duties**

Currently, some operating and financial functions at the District are performed by a single person. The lack of segregation of duties poses an internal control problem.

#### **Recommendation:**

We recommend that, insofar as possible, financial duties be properly segregated. For instance, the general ledger should be maintained by an individual other than the person who is involved in the receipt and disbursement of cash. Also, bank reconciliations should be prepared by an individual who doesn't handle cash receipts or disbursements. We realize it isn't always economically feasible to hire additional employees to segregate duties. We suggest that the Board continue to closely monitor the financial activity of the District to compensate for the lack of segregation of duties. The Board should make it a priority to review monthly bank reconciliations or make arrangements for a qualified individual, independent of the cash function, to do so. The Board should initial the monthly reconciliation to indicate their review.

#### **District's Response:**

We agree with the finding and will implement the recommendation, insofar as possible. The Board will continue with the oversight functions.

### **2005-2 Finding: No written capitalization policy**

#### **Recommendation:**

The District should establish a written policy that outlines the policies and procedures for capitalizing assets.

#### **District's Response:**

We agree with the finding and will implement the recommendation.

## **C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no findings or questioned costs.



## **D. PRIOR YEAR AUDIT FINDINGS**

### **2004-1 Finding: Segregation of duties**

Currently, some operating and financial functions at the District are performed by a single person. The lack of segregation of duties poses an internal control problem.

#### **Status:**

See finding 2005-1.

### **2004-2 Finding: Check signing prior to payment amount being completed.**

Because a board member is not always available to sign checks, payroll checks were pre-signed in order to avoid delays in distributing payroll checks for lack of a signature.

#### **Status:**

This finding has been corrected. Two signatures are required for each check, so only one signature is pre-signed. A board member now comes to the office on payday to make the second signature for distribution.

### **2004-3 Finding: Capitalization policy**

The District does not currently have a written capitalization policy.

#### **Status:**

See finding 2005-2.



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## UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

Honorable Administrative Board Members  
Timberlakes Water Special Service District  
Heber City, Utah

We have audited the financial statements of Timberlakes Water Special Service District for the year ended December 31, 2005, and have issued our report thereon dated January 24, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues
- Impact Fees

The District did not receive any state grants during the year ended December 31, 2005.

The management of Timberlakes Water Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

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The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

**A. STATUS OF PRIOR YEAR FINDING**

**Finding 2004-1:** The District did not have a fidelity bond.

**Status:** This finding has been resolved.

**Finding 2004-2:** Cash deposits were not being made on a timely basis.

**Status:** This finding has been resolved.

In our opinion, Timberlakes Water Special Service District complied in all material respects with the compliance requirements identified above for the year ended December 31, 2005.

This report is intended for the information of management and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified entities.

*Hawkins Cloward & Simister, LC*

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

January 24, 2006

**TIMBERLAKES WATER SPECIAL SERVICE DISTRICT**  
**Schedule of Insurance in Force**  
December 31, 2005

<u>Description</u>	<u>Company</u>	<u>Policy Number</u>	<u>Liability Limit</u>	<u>Expiration Date</u>
Auto liability	Farmers	659114740004.00	\$500,000 each vehicle	6/9/2006
General liability	Sentry West/Scottsdale Ins Co.	CLS1152620	\$1,000,000	6/3/2006
Backhoe	USF Insurance Co.	LGBIM40624	\$70,000	6/9/2006
Meters	USF Insurance Co.	LGBIM40624	\$80,000	6/9/2006
Public Official Treasurer Bond	Fred A. Moreton & Co.	34BSBDJ8137	\$60,000	3/25/2006
Employee Theft per employee	Fred A. Moreton & Co.	34BPEDH0439	\$55,000	2/1/2008